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PAGE 01 BRIDGE 01880 110048Z

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SUBJECT: ECONOMIC ALERT REPORT

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1. THE ECONOMIC DIFFICULTIES OF THE ENGLISH-SPEAKING
COUNTRIES OF THE EASTERN CARIBBEAN--BARBADOS, GRENADA,
AND THE ASSOCIATED STATES-- HAVE NOW REACHED PROPORTIONS THAT
ARE HAVING SERIOUS SOCIAL AND POLITICAL CONSEQUENCES IN THIS
AREA. WHILE DIRECT SIGNIFICANT U.S. INTERESTS ARE NOT
NECESSARILY INVOLVED, AN UNSTABLE EASTERN CARIBBEAN MUST BE
OF CONCERN TO US.

2. ALTHOUGH THE SETS OF ECONOMIC PROBLEMS AFFECTING
BARBADOS, ON THE ONE HAND, AND THE FIVE ASSOCIATED STATES,
INDEPENDENT GRENADA AND THE THREE BRITISH COLONIES WITHIN
THE AREA OF OUR JURISDICTION, ON THE OTHER, DO OVERLAP, THE
DIFFERENCES ARE SUFFICIENT TO JUSTIFY SEPARATE TREATMENT.

3. BARBADOS' MAJOR ECONOMIC PROBLEMS: THE ISLAND
LIVES FROM--IN THIS ORDER--TOURISM, SUGAR EXPORTS AND
EMIGRANTS' REMITTANCES, ALL ITEMS ALMOST TOTALLY
OUTSIDE THE GOB'S ABILITY EVEN TO INFLUENCE, LET ALONE
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PAGE 02 BRIDGE 01880 110048Z

CONTROL. THE GOVERNMENT'S RECENT MOVES TO PROTECT
DWINDLING FOREIGN EXCHANGE RESERVES BY LIMITING IMPORTS
AND BANK LENDING TO THE DISTRIBUTIVE SECTOR (MOST GOODS SOLD
HERE ARE IMPORTED) INHERENTLY CONFLICTS WITH ITS DESIRE TO EXPAND
EMPLOYMENT, THE
CARDINAL POLITICAL IMPERATIVE. EFFORTS TO REDUCE GOVERNMENT
SPENDING AND WORK TOWARDS A REASONABLE LONG-TERM BALANCED

BUDGET LIKEWISE CONFLICT WITH THE BARBADIAN TRADITION OF USING GOVERNMENT AS AN EMPLOYER OF LAST RESORT. THE GOB'S DEGREE OF ECONOMIC "RATIONALITY," NOW RELATIVELY HIGH, WILL PROGRESSIVELY DECLINE AS THE NEXT GENERAL ELECTION--STILL FOUR YEARS HENCE--APPROACHES.

4. OUTLOOK FOR THE BARBADIAN ECONOMY'S NEXT TWELVE MONTHS: FAIR TO GOOD, PROVIDED A MAJOR PETROLEUM PRICE HIKE (WHICH, FOR STARTERS, AFFECTS TOURIST ARRIVALS BY HIKING AIRLINE FARES) DOES NOT OCCUR. BALANCE OF PAYMENTS CONSIDERATIONS WILL PREOCCUPY THE GOB AND LEAD TO MORE UNPOPULAR CONTROLS AND RESTRICTIONS, BUT THESE SHOULD SUFFICE TO AVOID A DEVALUATION. LITTLE REAL PROGRESS WILL BE MADE IN WHITTILING DOWN THE HIGH RATE OF UN-AND UNDEREMPLOYMENT, BUT AS FEW BARBADIANS REALLY EXPECT SIGNIFICANT IMPROVEMENT IN THIS REGARD, THE GOB WILL NOT BE TAKEN STRONGLY TO TASK BY THE POPULACE GENERALLY.

5. CRITICAL POINTS: THE COST OF PETROLEUM (AS NOTED IN PARA 3) AND WORLD SUGAR PRICES. BARRING A CATASTROPHIC HURRICANE, WEATHER IS RELATIVELY UNIMPORTANT, EVEN THOUGH A WORSENING OF THE REGIONAL DROUGHT MAY AFFECT SUGAR TO A LIMITED EXTENT. GOB OFFICIALS ARE ACTIVELY PUSHING FOR BILATERAL USG ECONOMIC ASSISTANCE AND SUCCESS IN THIS REGARD, THEY FEEL, WOULD SUBSTANTIALLY EASE THE ISLAND'S SHORT-TERM ECONOMIC DIFFICULTIES. CORRESPONDINGLY, OUR REJECTION
CONFIDENTIAL

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PAGE 03 BRIDGE 01880 110048Z

OF A BILATERAL AID PROGRAM FOR BARBADOS CAN BE EXPECTED TO CAUSE US SERIOUS POLITICAL PROBLEMS. ECONOMIC RETALIATION BY BARBADOS(E.G. DISCRIMINATORY TRADE RESTRICTIONS) IS NOT EVEN A REMOTE POSSIBILITY, HOWEVER.

6. MAJOR ECONOMIC PROBLEMS -- "THE SMALL ISLANDS": THE FIVE QUASI-INDEPENDENT ASSOCIATED STATES (ANTIGUA, DOMINICA, ST.KITTS-NEVIS, ST. LUCIA, ST. VINCENT), TWO OF THE THREE BRITISH COLONIES (MONTSERRAT AND ANGUILLA) AND INDEPENDENT GRENADA ALL SHARE BARBADOS' TWIN PROBLEMS OF PERSISTENT UNEMPLOYMENT AND ECONOMIES HYPERSENSITIVE TO LARGELY UNCONTROLLABLE EXTERNAL CONDITIONS. (THE THIRD COLONY, THE BRITISH VIRGIN ISLANDS, EXPORTS LABOR TO THE U.S. VIRGINS AND THUS MAINTAINS RELATIVELY FULL EMPLOYEMENT.) ALSO LIKE BARBADOS, THE SMALL ISLANDS LACK EXPLOITABLE NATURAL RESOURCES. THESE SMALL ISLANDS (THE ASSOCIATED STATES HAVE AN AVERAGE POPULATION OF LESS THAN 100,000 EACH WHILE THE COLONIES HAVE POPULATIONS AVERAGING 10,000) SUFFER SEVERAL ADDITIONAL PROBLEMS NOT FELT HERE. FOR EXAMPLE: A) MIDDLE CLASS DEMORALIZATION (AND THE RESULTANT FREQUENT DISINVESTMENT PATTERN) CAUSED BY POLITICAL UNCERTAINTY; B) EXTREME "THINNESS" (I.E. NO MIDDLE MANAGEMENT) IN GOVERNMENT; C) THREATS AGAINST

TRADITIONAL EXPORT MARKETS BY LOWER COST PRODUCERS OF SUCH PRIMARY PRODUCTS AS BANANAS; AND D) THE FORESEEABLE (BUT NOT OPENLY ADMITTED) PHASED END OF BRITISH FINANCIAL SUPPORT FOR THE ASSOCIATED STATES. (THE FIVE ASSOCIATED STATES, NOT MUTALLY ASSOCIATED BUT RATHER ASSOCIATED EACH SEPARATELY WITH BRITAIN, ARE ALL EXPECTED TO BE INDEPENDENT WITHIN THE NEXT THREE YEARS.)

7. NEXT YEAR'S OUTLOOK: POOR TO FAIR FOR ALL EXCEPT ST. LUCIA, WHICH BY VIRTUE OF A PROJECTED US\$50 MILLION INVESTMENT RATES A "GOOD TO VERY GOOD." LOWER SUGAR PRICES WILL STAGGER ST. KITTS, WHICH DOES LITTLE ELSE EXCEPT GROW SUGAR CANE. IN THE ABSENCE OF HIGHER AIR FARES, ANTICIPATED IMPROVED TOURISM SHOULD SOMEWHAT BUOY ANTIGUA, ST, LUCIA AND GRENADA BUT IN
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 BRIDGE 01880 110048Z

SPITE OF THIS THE OVERALL TRENDS ARE STILL FRANKLY NEGATIVE. AVERAGE PER CAPITA REAL INCOME WILL CONTINUE TO SLIP AND PROJECTED ECONOMIC ASSISTANCE ACTIVITIES WILL AT BEST SLOW THE RATE OF DETERIORATION IN THE CONOMY AS A WHOLE.

8. CRITICAL POINTS: INDEPENDENCE FOR THE FIVE ASSOCIATED STATES --PROBABLY BEGINNING WITH DOMINICA IN EARLY 1978-- WILL BE A WATERSHED. BRITISH WITHDRAWAL FROM THE REGION CREATES A POLITICAL AND ECONOMIC VACUUM. NEW EXTERNAL AID SOURCES MUST BE FOUND. INDEPENDENT STATES WOULD REQUIRE GREATER ASSISTANCE THAN A FEDERATION WHERE SOME ECONOMICS OF SCALE MIGHT BE POSSIBLE. AMONG WESTERN NATIONS, IF THE BRITISH CARRY OUT THEIR WITHDRAWAL, ONLY THE U.S., CANADA AND VENEZUELA SEEM FEASIBLE AS POSSIBLE SOURCES OF ASSISTANCE. WE BELIEVE A CONCERTED EFFORT IS PREFERABLE TO A BILATERAL U.S. EFFORT. BUT WHATEVER THE SOURCE IT SHOULD BE UNDERSTOOD THAT THE OBLIGATION ONCE ASSUMED WILL BE A CONTINUING ONE OAS FAR AHEAD AS WE CAN FORESEE. WITHOUT OUTSIDE ASSISTANCE THE ASSOCIATED STATES CAN NOT IN THE COMING YEARS WEATHER THE PROBLEMS THEY WILL FACE WITH THEIR DEMOCRATIC INSTITUTIONS AND TRADITIONS INTACT.
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